

**Congress of the United States**  
**Washington, DC 20515**

March 19, 2021

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

The Honorable Randal K. Quarles  
Vice Chairman for Supervision  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Dear Chairman Powell and Vice Chair Quarles:

As you know, we have previously engaged with you and your staff about the importance of updating the Federal Reserve's rules governing margin eligibility requirements for certain qualifying over the counter (OTC) traded stocks. We appreciate your attention to this issue, and we are encouraged that the "Federal Reserve staff are developing a proposal that would make certain domestic and foreign over-the-counter (OTC) securities marginable at broker-dealers under the Federal Reserve Board's (Board) Regulation T."<sup>1</sup>

We recognize that the Federal Reserve has undertaken unprecedented action since March 2020 in response to the economic challenges resulting from the pandemic. However, the Federal Reserve should move forward without delay to modernize rules governing margin eligibility for OTC securities that have characteristics similar to those of smaller exchange-traded securities, such as investor interest, depth of market, and availability of information regarding the security and its issuer.

Until recently, the Federal Reserve had not undertaken a review of its margin eligibility rules for OTC securities even after significant developments in the OTC marketplace, including Nasdaq becoming an exchange over 14 years ago, and the many improvements made since to increase transparency, liquidity and information in OTC securities. For example, OTC platforms have clearly distinguished companies into tiers, requiring higher tier companies to meet strong financial standards, follow best practice corporate governance, be current in their disclosures, and cannot be penny stocks, shell companies, or in bankruptcy. We urge the Federal Reserve to extend margin eligibility to these higher-tier OTC securities.

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<sup>1</sup> Enclosure, Letter from The Honorable Jerome Powell, Chairman, Federal Reserve Board of Governors, to Senator Thom Tillis, May 28, 2020.

Holders of marginable securities can borrow against them, which increases the utility of owning those securities, improves market quality, and increases the value for investors. This in turn can have a direct impact on small company capital formation. Therefore, if the Federal Reserve does not update its margin eligibility rules for certain OTC securities, it needlessly negatively impacts both issuers and investors.

We urge the Federal Reserve to promptly move forward with rulemaking to update Regulation T to allow margin eligibility for OTC securities that meet certain criteria such as investor interest, depth of market, and availability of information regarding the security and its issuer.

We appreciate your attention to this issue, and we look forward to continuing to work with you.

Sincerely,



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Thom Tillis  
United States Senator



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Cynthia M. Lummis  
United States Senator



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Trey Hollingsworth  
Member of Congress



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Steve Stivers  
Member of Congress



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Ted Budd  
Member of Congress



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Warren Davidson  
Member of Congress



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William R. Timmons IV  
Member of Congress